



HARRY GWALA DEVELOPMENT AGENCY (PTY) LTD
[REG. No: 2011/001221/07]

POLICY: BUDGET

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| Administrative Responsibility: | Chief Executive Officer |
| Implementing Department / Departmental Unit | Budget and Treasury Office |

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BUDGET POLICY

POLICY DOCUMENT CONTROL

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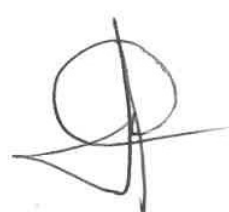
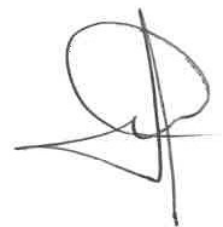


TABLE OF CONTENTS

| | |
|---|----|
| PREAMBLE..... | 4 |
| 1. INTERPRETATION OF THE POLICY | 4 |
| 2. OBJECTIVE OF THE POLICY | 6 |
| 3. BUDGETING PRINCIPLES TO BE FOLLOWED..... | 6 |
| 4. RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER (ASSUMING REQUIRED DELEGATIONS BY ACCOUNTING OFFICER IN PLACE)..... | 8 |
| 6. MUNICIPAL STANDARD CHART OF ACCOUNT..... | 10 |
| 7. ANNEXURE: LEGAL REQUIREMENTS | 11 |
| 8. COMMENCEMENT..... | 33 |

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PREAMBLE

In terms of the Municipal Finance Management Act, No. 56 of 2003, the Board of Directors of the Municipal Entity must for each financial year submit a proposed budget for the Municipal Entity to its parent municipality not later than 150 days before the start of the financial year and obtain recommendations and inputs from the parent municipality, assess and consider those recommendations and submit it not later than 100 days before the start of the financial year.

The MFMA states that the Board of Directors of a municipal entity must approve the budget of the entity not later than 30 days before the start of the financial year, taking into account any hearings or recommendations of the Council of the parent municipality.

The MFMA also states that the Board of Directors of the municipal entity with the approval of the Mayor may revise the budget of the municipal entity.

1. INTERPRETATION OF THE POLICY

Except to the extent to which the context may otherwise require, this Policy shall be construed in accordance with the following provisions of this sub-paragraph:

1.1 Words importing the singular also include the plural, and *vice versa*, where the context requires.

1.2 The following words shall have the meanings hereby assigned to them –

“**CEO**” shall mean the Chief Executive Officer of the Harry Gwala Development Agency (Pty) Ltd.

“**CFO**” means a person appointed as the Chief Financial Officer of the Harry Gwala Development Agency, a person designated in terms of section.

“**COMPANIES ACT**” shall mean the Companies Act, 2008 (Act No 71 of 2008), as amended from time to time.

“**COUNCIL**” refers to the Municipal Council of the Harry Gwala District Municipality, as defined in Section 157 (1) of the Constitution of the Republic of South Africa, Act 108 of 1996, as amended from time to time.

“**COUNCILLOR**” means the member of the Municipal Council.



“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;

“HGDA” means the Harry Gwala Development Agency (Pty) Ltd, a company duly incorporated in terms of the laws of the Republic of South Africa with registration number: 2011/001221/07, in which the Harry Gwala District Municipality, as Parent Municipality, holds a sole interest.

“HGDM” means the Harry Gwala District Municipality, a Category C Municipality established in terms of Section 155(1)(c) of the Constitution of the Republic of South Africa, 1996 and in terms of Section 12(1) of the Municipal Structures Act, 32 of 2000 (as amended) and its successors in title. Includes duly authorised officials of the Municipality who have been delegated any powers, functions and duties necessary to give effect to this Policy and decide upon and administer the matters referred to herein.

“MEETING” shall mean any meeting of the board or any board sub-committees (portfolio committee) as well as any other General meeting meeting of the entity including meetings of Council, irrespective of the duration of such meeting.

“MFMA” shall mean the Municipal Finance Management Act 56 of 2003, as may be amended from time to time.

“MSA” shall mean the Municipal Systems Act 32 of 2000, as amended from time to time.

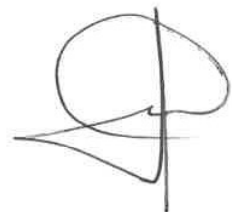
“MSCOA” – Municipal Standard Chart of Accounts.

“NATIONAL TREASURY” means the National Treasury established by section 5 of the Public Finance Management Act.

“NON-EXECUTIVE DIRECTOR” shall mean a non-executive director of the Agency appointed in terms of section 93E of the Municipal Systems Act, 32 of 2000.

“SHAREHOLDER” shall mean the Harry Gwala District Municipality.

“VIREMENT” means the supplementing of the budget under a main. division/economic classification of a vote, from savings under another main.

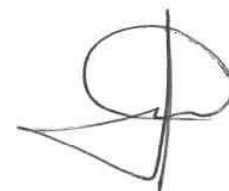
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2. OBJECTIVE OF THE POLICY

The objective of this policy is to set out the budgeting principles which the Municipal Entity will follow in preparing each annual budget, as well as the responsibilities of the Chief Financial Officer in compiling such budget.

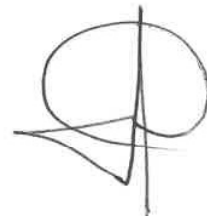
3. BUDGETING PRINCIPLES TO BE FOLLOWED

- 3.1 Except in so far as capital projects represent a contractual commitment to the Municipal Entity extending over more than one financial year, the annual capital budget shall be prepared from a zero base.
- 3.2 The capital budget component of the annual or adjustments budget shall only be approved by the Board 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.
- 3.3 Before approving the capital budget component of the annual or adjustments budget, the Board shall consider the impact on the present and future operating budgets of the Municipal Entity 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 Board shall consider the likely impact of such operation expenses (net of any revenues expected to be generated by such item) on future service charges.
- 3.4 The Municipal Entity shall for the purposes of each annual budget be guided by the Priorities indicated on the approved entity's strategy to 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:
- 3.5 Unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
- 3.6 Interest on the investments of the asset financing reserve, appropriated in terms of the banking, cash management and investments policy;
- 3.7 Further amounts appropriated as contributions in each annual or adjustments budget; and
- 3.8 Net gains on the sale of fixed assets in terms of the fixed asset management and accounting policy.
- 3.9 Each annual and adjustments budget shall reflect a realistic excess, however nominal, of current revenues over expenses.
- 3.10 Any unappropriated surplus from previous financial years, even if fully cash-backed, shall not be used to balance any annual or adjustments budget. When deemed necessary by Board and should the unappropriated surplus be sufficient, the Board may transfer from the unappropriated surplus to any fund providing for the financing of capital assets.
- 3.11 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 Entity, 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 set aside for specific purposes.

- 3.12 The Municipal Entity shall establish and maintain a provision for accrued leave entitlement equal to 100% of the accrued leave entitlement of officials as of 30 June of each financial year and shall budget appropriately for contributions to such provision in each annual and adjustments budget.
- 3.13 The Municipal Entity shall establish and maintain a provision for bad debts and shall budget appropriately for contributions to such provision in each annual and adjustments budget. The contribution to bad debts in each annual and adjustment budget must be at least equal to the non-payment rate of debtors, less the debtors that have entered into payment arrangement, at the time the budget is being compiled. This is to ensure that the Municipal Entity has sufficient cash flow to meet all its budgeted commitments for the financial year.
- 3.14 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.
- 3.15 Finance charges on loans payable by the Municipal Entity shall be apportioned between departments or votes on the basis of the departments using such fixed assets financed from the loans.
- 3.16 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.
- 3.17 The allocation of interest earned on the Municipal Entity's investments shall be budgeted for in terms of the banking and investment policy.
- 3.18 The Municipal Entity 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 8% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.
- 3.19 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 relating to matters determined by the Chief Financial Officer in terms of the Municipal Entity's approved policies and contractual and statutory commitments (for example, depreciation charges, finance charges, insurance costs, skills development levies payable).
- 3.20 Notwithstanding the preceding principle, the budget for salaries, allowances and salaries-related benefits shall be separately prepared and shall not exceed 30% of the aggregate operating budget component of the annual or

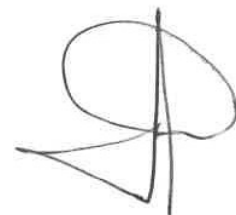
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adjustments budget. For purposes of applying this principle, the remuneration of political office bearers and other Councilors shall be excluded from this limit.

- 3.21 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 Chief Executive Officer . In justifying the allocations made to and within the vote, the head of department, service or function concerned shall provide the Chief Executive Officer with appropriate quarterly performance indicators and service delivery targets pertaining to the budget. Such indicators and targets shall be included in the Service Delivery and Budget Implementation Plan (SDBIP) and shall be approved by the Chief Executive Officer and the Board . Changes in the SDBIP during the financial year should be supported by the adjustments budget.
- 3.22 When considering the draft annual budget, the Board I shall consider the impact, which the proposed increases in service charges 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 Board I shall ensure that the average additional impact of such increases is not more than the relevant increase in the consumer price index.
- 3.23 The adjustment budget shall only be considered to regularize situations where particular votes are going to be over or under spent. No new allocations unless specifically authorized by the Board will be included in the adjustment budget.

4. RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER (ASSUMING REQUIRED DELEGATIONS BY ACCOUNTING OFFICER IN PLACE)

- 4.1 Without derogating in any way from the legal responsibilities of the Accounting Officer 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, cash management and investments policy), and shall be accountable to the Accounting Officer in regard to the performance of these functions. The Accounting Officer shall ensure that all heads of departments provide the inputs required by the chief financial officer into these budget processes.
- 4.2 The chief financial officer shall draft the budget timetable for the ensuing financial year for the Board'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 Board of Directors, Board sub-committee and the parent municipality.

4.3 Except where the chief financial officer, with the consent of the Board and Accounting Officer, 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:

4.3.1 depreciation charges.

4.3.2 repairs and maintenance expenses

4.3.3 interest payable on external borrowings

4.3.4 other operating expenses.

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

4.5 The chief financial officer shall determine the depreciation expenses to be charged to each vote, the apportionment of interest payable to the appropriate votes, the estimates of withdrawals from (claims) and contributions to (premiums) the self-insurance reserve, and the contributions to the provisions for bad debts, accrued leave entitlements and obsolescence of stocks.

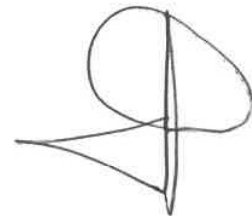
4.6 The chief financial officer shall further, with the approval of the Board and the Chief Executive Officer, determine the recommended contribution to the asset financing reserve and any special contributions to the self-insurance reserve.

4.7 The chief financial officer shall also, again with the approval of the Board and the Chief Executive Officer, and having regard to the Municipal Entity's current financial performance, determine the recommended aggregate growth factor(s) according to which the budgets for the various votes shall be drafted.

4.8 The chief financial officer shall compile monthly budget reports, with recommendations, comparing actual results with budgeted projections, and the heads of departments shall timeously and adequately furnish the chief financial officer with all explanations required for deviations from the budget. The chief financial officer shall submit these monthly reports to the Chief Executive Officer, HR and finance sub-committee and the parent municipality, and all other prescribed parties, in accordance with the prescriptions of the Municipal Finance Management Act.

4.9 The chief financial officer shall provide technical and administrative support to the Board 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.

4.10 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, and comply with all budget related policies.

- 4.11 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.
- 4.12 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.
- 4.13 The chief financial officer shall ensure that the cost of indigency relief is separately reflected in the appropriate votes.
- 4.14 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.

5. COST CONTAINMENT MEASURES (Circular No: 97)

Purpose

Section 62(1)(a) of the Municipal Finance Management Act No. 56 of 2003 (MFMA) stipulates that the accounting officer of a Municipal Entity is responsible for managing the financial administration of a Municipal Entity and must for this purpose take all reasonable steps to ensure that the resources of the Municipal Entity are used effectively, efficiently and economically. In terms of the legal framework, the elected councils and accounting officers are required to institute appropriate measures to ensure that the limited resources and public funds are appropriately utilized to ensure value for money is achieved. The purpose of this Circular is to guide municipalities and municipal entities on cost containment measures that must be implemented in an effort to address the impact of the country's economic challenges and to promote growth, address unemployment and equality, amongst others.

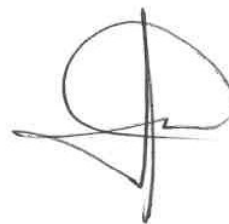
6. MUNICIPAL STANDARD CHART OF ACCOUNT

6.1. What is Municipal SCOA (mSCOA):

mSCOA stands for "standard chart of accounts" and provides a uniform and standardized financial transaction classification framework. Essentially this means that mSCOA prescribes the method (the how) and format (the look) that municipalities and their entities should use to record and classify all expenditure (capital and operating), revenue, assets, liabilities, equity, policy outcomes and legislative reporting. mSCOA is a "proudly South African" project researched by National Treasury based on municipal practices, reporting outcomes, policy implementation and review, etc.

6.2. Why mSCOA:

The SCOA transaction classification reforms already commenced in 1998 for national and provincial government and since 2004, the Economic Reporting Format (ERF) and



SCOA are fully operational and used by all national and provincial departments. Overall, the implementation process has proceeded smoothly without any major hurdles or impediments. The successful implementation of SCOA contributed to growing positive public perception, locally and internationally, and strengthened public sector accountability and reporting. However, when incorporating municipal information for whole-of-government reporting and decision making, the misalignment in municipal reporting (discussed below) prevented informed decision making and affected the credibility of our reporting.

6.3. Who must implement mSCOA:

The Municipal Regulations on a Standard Chart of Accounts (mSCOA) is applicable to all municipalities and municipal entities with effect from 1 July 2017. This means that as of 1 July 2015, a non-pilot Municipal Entity still has a 16-month preparation and readiness window remaining to enable it to capture all transactions (at posting level) in accordance with mSCOA within its respective financial applications (systems). This is calculated from the assumption that the Municipal Entity should prepare its 2017/18 budget during October/ November 2016 as required by the Municipal Budget and Reporting Regulations. And also table their mSCOA compliant Draft and Annual Budget to council.

7. ANNEXURE: LEGAL REQUIREMENTS **MUNICIPAL FINANCE MANAGEMENT ACT**

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 Municipal Entity 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, if it is separated into annual appropriations for that period.

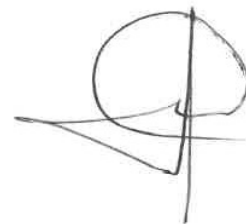
Section 17 Contents of annual budgets and supporting documents

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 budget-related policies.
- measurable performance objectives for each budget vote.
- the projected cash flows for the financial year by revenue sources and expenditure votes.
- any proposed amendments to the budget-related policies;
- the cost to the Municipal Entity of the salaries, allowances and other benefits of the board members, the Accounting Officer, the chief financial officer, and other senior managers.
- particulars of any proposed allocations municipal entities, external mechanisms assisting the Municipal Entity in service delivery, other organs of state, and organizations such as NGOs, welfare institutions and so on.
- particulars of the Municipal Entity's investments; and

Section 18 Funding of expenditures

The budget may be financed only 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

A Municipal Entity 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.

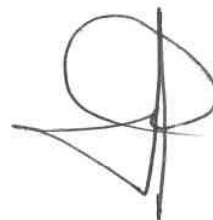
The envisaged sources of funding for the capital budget must be properly considered, and the Council must be satisfied that this funding is available and has not been committed for other purposes.

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 Municipal Entity must use in compiling its budget.

The Minister may also prescribe uniform norms and standards in regard to the setting of tariffs where a Municipal Entity or other external mechanisms is used to perform a



municipal service; and may also take appropriate steps to ensure that a Municipal Entity 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 budget-related policies to ensure that the budget, 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 macroeconomic policies, and the annual Division of Revenue Act.
- Consult the district Municipal (if it is a local Municipal Entity) and all other local municipalities in the district, and all other local municipalities in the district if it is a district Municipality.
- 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 Municipal Entity affected by the budget.

Section 22 Publication of annual budgets

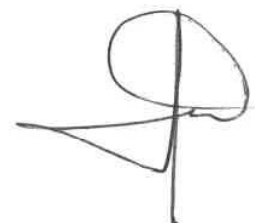
Immediately after the annual budget has been tabled, the Accounting Officer must make this budget and other budget-related documentation public, and must invite the local community to submit representations in regard to such budget.

The Accounting Officer 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 any municipality or municipal entity 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

A Municipal Entity may revise its annual budget by means of an adjustments budget.

However, a Municipal Entity must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.

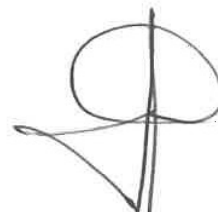
A Municipal Entity may appropriate additional revenues which have become available but only to revise or accelerate spending programmes already budgeted for.

A Municipal Entity may in such adjustments budget, and within the prescribed framework, authorize unforeseen and unavoidable expenses on the recommendation of the Mayor.

A Municipal Entity may authorize the utilization of projected savings on any vote towards spending under another vote.

Municipalities may also authorize 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 Municipal Entity 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 to 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.

Roll Overs

Funds appropriated but not spent in a particular financial year may be rolled over to a subsequent year subject to approval of Provincial Treasury and a funding department. Such approval will be guided by the following limitations:

Payments for capital assets: Unspent funds on payments for capital assets may only be rolled over to finalize projects or asset acquisitions still in progress.

Current payments: Savings on compensation of employees may not be rolled over. A maximum of 5% of the entity's payments for goods and services may be rolled over.

Requests for rollovers must be submitted to Treasury on or before the last working day of April, in a format determined by the National Treasury and must include:

The purpose for which the funds were appropriated.

The reasons why the funds were not spent.

Proposed changes to the use of funds, if any; and

A disbursement schedule indicating the month(s) in which the expenditure is expected to be incurred.

Funds for a specific purpose may not be rolled over for more than one financial year, unless approved in advance by the relevant Treasury.

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 Accounting Officer certifies that actual revenues are expected to exceed budgeted revenues, and that enough 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

Unauthorized expenses may be authorized in an adjustments budget.

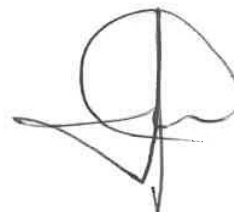
Section 33 Contracts having future budgetary implications

- Contracts extending beyond one financial year may be entered into by a Municipal Entity, but if such contract extends beyond the three years covered in the annual budget, the Municipal Entity may enter into such contract only if: The Accounting Officer, 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 summarizing the Municipal Entity's obligations, and inviting the local community and other interested parties to submit comments or make representations.
- The Accounting Officer 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 derive 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 Municipal Entity, 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 municipalities 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 organized 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 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 Municipal Entity'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 Chief Executive Officer and the senior managers of the Municipal Entity 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 Accounting Officer and other senior officials are similarly made public not later than fourteen days after their approval.

Section 68 Budget preparation

The Accounting Officer 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 71 Monthly budget statements

The Accounting Officer must, not later seven working days after the end of each calendar month, submit to the Mayor a report in the prescribed format on the state of the Municipal



Entity'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 Accounting Officer, the Mayor must:

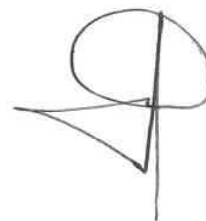
- consider the report;
- check whether the budget has been implemented in accordance with the service delivery and budget implementation plan;
- issue appropriate instructions to the Accounting Officer to ensure that the budget is implemented in accordance with this plan, and that the spending of funds and the collection of revenues proceed in accordance with the approved budget;
- identify any financial problems facing the Municipal Entity, 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 Municipal Entity.

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 Municipal Entity 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 Chief Executive Officer must assess the budgetary performance of the Municipal Entity 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 Municipal Entity 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 Chief Executive Officer must then submit a report on such assessment to the Board and the parent municipality, .

The Chief Executive Officer 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.

Section 75 Information to be placed on websites of municipalities

The Chief Executive Officer must place on the Municipal Entity'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 Board and the parent municipality on the implementation of the budget and the financial state of affairs of the Municipal Entity.

Section 80 Establishment (of municipal budget and treasury office)

Every Municipal Entity 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 Accounting Officer in preparing and implementing the budget.
- perform such budgeting, financial reporting and financial management and review duties as are delegated by the Chief Executive Officer;
- account to the Chief Executive Officer for the performance of all the foregoing responsibilities.

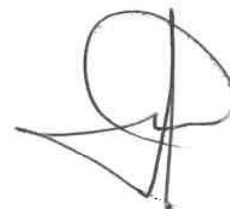
Section 83 Competency levels of professional financial officials

The Chief Executive Officer, senior managers, the Chief Financial Officer and the other financial officials in a Municipal Entity must all meet prescribed financial management competency levels.

Section 100 of the MFMA, Budget implementation

The accounting officer of a municipal entity is responsible for implementing the entity's budget, including taking effective and appropriate steps to ensure that-

(a) the spending of funds is in accordance with the budget.



- (b) revenue and expenditure are properly monitored; and
- (c) spending is reduced as necessary when revenue is anticipated to be less than 50 projected in the budget.

Section 101 Impending under collection, shortfalls, overspending, overdrafts, and nonpayment

The accounting officer of a municipal entity must report, in writing, to the board of directors of the entity, at its next meeting, and to the accounting officer of the entity's parent municipality any financial problems of the entity, including-

- (a) any impending or actual-
 - (i) under collection of revenue due;
 - (ii) shortfalls in budgeted revenue;
 - (iii) overspending of the entity's budget;
 - (iv) delay in the entity's payments to any creditors; or
 - (v) overdraft in any bank account of the entity for a period exceeding 21 days; and
 - (b) any steps taken to rectify such financial problems.
- (2) The accounting officer of the municipality must table a report referred to in 15 subsection (1) in the municipal council at its next meeting.



SUMMARISED SCHEDULE OF KEY DEADLINES TIMETABLE

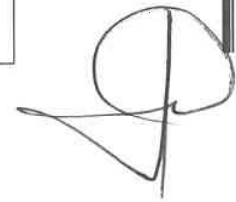
NOTE: DATES IN BRACKETS ARE PUTATIVE

| FINAL DATE | ACTION BY MUNICIPALITY | ACTION BY MUNICIPAL ENTITY |
|-----------------------------------|--|---|
| 31 August | Table in council timetable for preparation of coming year's annual budget | - |
| 20 January | - | Assess current year's budget performance and submit report to board of directors and Municipal Entity |
| 25 January | Assess current year's budget performance | - |
| 31 January | Table assessment report in council | - |
| 31 January or earlier | - | Submit proposed budget for coming year to Municipal Entity |
| (31 January) | Consider municipality's proposed budget for coming year and make recommendations | - |
| (31 January or earlier) | Table municipal entity's adjustments budget for coming year | Submit adjustments budget for current year to Municipal Entity and make budget public |
| (Between 31 January and 31 March) | Table Municipality's adjustments budget for current year and changes to service delivery targets and KPIs | - |
| (Between 31 January and 31 March) | Make public (adjustments budget and) revisions to service delivery and budget implementation plan for current year | - |
| Mid-March | - | Submit revised budget for coming year to Municipal Entity |
| 31 March | Table Municipality's draft budget for coming year | - |

| | | |
|--|---|-----------------------------------|
| 31 March | Table municipality's revised budget for coming year | - |
| Immediately after 31 March | Make public draft budget for coming year and invite submissions from community, provincial treasury and others | - |
| FINAL DATE | ACTION BY MUNICIPALITY | ACTION BY MUNICIPAL ENTITY |
| Before 31 May | Respond to submissions and revise draft budget for coming year | - |
| 31 May | Consider approval of budget for coming year and attendant resolutions | |
| 30 June | Budget for coming year and attendant resolutions must be approved by 30 June. Approved budget of entity must be tabled. | - |
| Early June to early July: immediately after budget approved | Submit budget to national treasury and provincial treasury | - |
| Early June to early July: immediately after approval dates | Place on website annual budgets and all budget-related documents | - |
| Mid June to mid July: 14 days after budget approved | Finalise draft service delivery and budget implementation plan and draft performance agreements | - |
| Late June to late July: 28 days after budget approved | Approve service delivery and budget implementation plan | - |
| Late June to late July: 28 days after budget approved | Conclude performance agreements | - |
| Mid July to mid August: 14 days after service delivery and budget implementation plan approved | Make public projections of revenues and expenses for each month of coming year, service delivery targets for each quarter, and performance agreements | - |

DETAILED BUDGET TIMETABLE

| Section of Municipal Finance Management Act No. 56 of 2003 | Date by which action must be completed | Action required | Responsible party | Practical considerations |
|--|--|---|-------------------|--|
| 21(1)(b) | 31 August | <p>Mayor must at least 10 months before start of budget year table in council time schedule outlining key deadlines for</p> <ul style="list-style-type: none"> - preparation, tabling and approval of annual budget - annual review of IDP - annual review of budget-related policies - tabling and adoption of any amendments to IDP and budget-related policies - any consultative processes forming part of foregoing | Mayor | Time schedule must either fit in with already scheduled council meetings or must indicate when special council meetings must be scheduled. |
| Section 88 | 20 January | Accounting officer of municipal entity must assess entity's budgetary and financial performance for first six months of financial year, and submit assessment report to board of directors and parent Municipal Entity. | | |

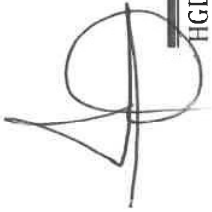


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| 72(1), (2) and (3) | 25 January | Accounting officer of Municipality must assess budgetary and financial performance of Municipal Entity for first six months of financial year, make recommendations on whether adjustments budget necessary, and recommend revised projections for revenues and expenses. This assessment must be submitted to the mayor, national treasury and the provincial treasury (presumably immediately). | Accounting officer | |
| 54(1)(f) | 31 January | Mayor must submit accounting officer's report to council. | Mayor | Special council meeting may have to be scheduled. |
| 87 | 31 January or earlier if so requested by parent Municipal Entity | Board of directors of municipal entity must submit to parent Municipality proposed for ensuing financial year. | Board of directors' entity | of it is not clear to what person or structure in the parent Municipal Entity this budget must be submitted. However, it makes good sense for the council of the Municipal Entity to consider this budget at the same meeting that it considers he Municipal Entity's own proposed adjustments budget. |

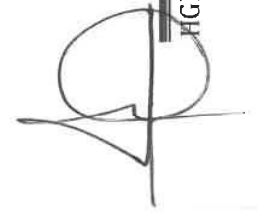
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| 87 | (31 January to mid-March) | Parent Municipality must consider proposed budget and make any necessary recommendations. | | It is not clear what person or structure in the parent Municipal Entity must perform this action, but the council seems the logical party. It would also make sense for the council to consider this budget by 31 January. |
| 87 | (Tabled in council by 31 January) | Board of directors of entity may, with approval of mayor of parent Municipality, revise budget of entity for certain prescribed reasons. Adjustments budget once approved by board of directors of entity must be tabled by mayor at next meeting of council of parent Municipality. Adjustments budget must be made public. | Board of directors and mayor of parent Municipality Entity | Evidently such an adjustments budget may be prepared at any stage. It would make good sense, however, for the parent Municipal Entity to insist that the entity's revised budget be prepared and submitted to the mayor at the same time that or before the entity's proposed budget for the new financial year is considered. |
| | | | | Again the potential problem of different parent municipalities having different views will have to be resolved |

| | | | | | |
|---------------|-----------------------------------|--|-------|--|--|
| 54(1) and (2) | (Between 31 January and 31 March) | If Municipality faces "serious financial problems" mayor must "promptly" respond to and initiate remedial steps proposed by accounting officer, including steps to reduce expenses and tabling of adjustments budget. Mayor must also consider revisions to service delivery and budget implementation plan. (Note that only council may approve changes to service delivery targets and KPIs – these changes must therefore be tabled with the adjustments budget). | Mayor | Adjustments budgets may be prepared by the accounting officer, and tabled in council by the Mayor "when necessary". They must be so prepared and tabled (within prescribed limits as to timing and frequency) whenever material adjustments to expenses or revenues are required, and not only when "serious financial problems" are | by (presumably) the mayors considered. |
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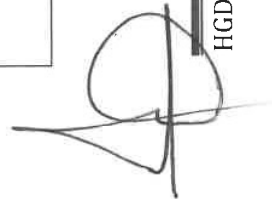
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| | | | | looming. In general, adjustments budgets |
| | | | | should preferably be tabled by or as soon as possible after 31 January, and certainly not later than 31 March when the draft annual budget for the next year is first tabled. |



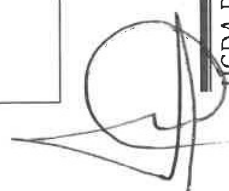
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| 54(3) | (Between 31 January and 31 March) | Mayor must ensure that revisions to service delivery and budget implementation plan are "promptly" made public. (Note that no concomitant revision of performance agreements is evidently envisaged). | Mayor | Presumably the accounting officer must make these revisions for the mayor's approval as part of the process of adjusting the annual budget. The deadline for these revisions must be by or as soon as possible after 31 January, but certainly not later than 31 March. See also 54(1) and (2). |
| 87 | 100 days before start of financial year (approximately mid March) | Board of directors of entity must consider recommendations, and if necessary submit revised budget to parent Municipality. | Board of directors of entity | |
| 16(2) | 31 March | Mayor must table (draft) annual budget of Municipal Entity at council meeting at least 90 days before start of budget year. | Mayor | Council meeting must be scheduled appropriately. |
| 87 | 31 March | Mayor of parent Municipal Entity must table originally proposed or proposed revised budget (as case may be) of entity when (draft) annual budget of | Mayor | - |
| | | Municipality first tabled. | | |



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| 22(a) and 22(b) | Immediately after 31 March or earlier date if annual budget tabled before 31 March | Immediately after (draft) annual budget tabled in council, accounting officer must (1) make public budget and documents referred to in Section 17(3), and invite local community to submit representations in connexion with budget, and (2) submit annual budget in both printed and electronic formats to provincial treasury, and in either format to prescribed national and provincial organs of state and to other municipalities affected by the budget. | Accounting officer | |
| 23(2) | Before 31 May | Council must give mayor opportunity (1) to respond to submissions received on (draft) annual budget and attendant documentation and (2) to revise budget, if necessary, and table amendments for consideration by council. | Mayor and council | - |
| 24(1) and (2) | 31 May | Council must consider approval of annual budget, together with resolutions imposing rates and levies, setting tariffs, approving measurable performance objectives for revenue from each source and for each vote, approving any changes to IDP, and approving any changes to budget-related policies. | Council | Although council has until 30 June to approve budget, best practice will be to approve budget not later than 31 May. |
| 87(4) | 31 May | Board of directors of municipality must approve budget for coming year, having taken into account recommendations of council of parent Municipal Entity, and must make budget public. | Board of directors of municipal entity | |



| | | | | |
|------------------|--|---|--------------------|--|
| 24(3) | (Immediate after approval date) | Accounting officer must submit approved annual budget to national treasury and provincial treasury. | Accounting officer | No time limit is specified for this action, and neither is the format in which the budget is to be submitted specified. |
| | | | | Common sense dictates that the submission should be at least in electronic format and that it should be made as soon as possible after the approval date. |
| 25(1) and (2) | Within 7 days of date of council meeting which failed to approve annual budget | If council fails to approve annual budget at meeting scheduled in terms of Section 24, must reconsider budget within 7 days of date of such meeting. If necessary, process must be repeated until budget approved by 30 June. | Council | As province will intervene if budget not approved by 30 June, mayor, Councillors and accounting officer must co-operate to ensure obstacles to approval timeously removed. |
| 69(3)(a) and (b) | 14 days after approval of annual budget (mid June to mid July) | Accounting officer must submit to mayor draft of service delivery and budget implementation plan, and drafts of annual performance agreements for Accounting Officer and all senior managers. | Accounting officer | |

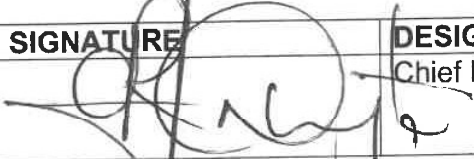


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| 53(1)(c)(ii) | Within 28 days after annual budget approved (late June to late July) | Service delivery and budget implementation plan must be approved by mayor, including projections of revenues and expenses for each month, and service delivery targets and performance indicators for each quarter. (Note that though the mayor approves these targets and KPIs, only the council may change them and then only following the approval of an adjustments budget. See Section 54(1)(c)). | Mayor | - |
| 53(1)(c)(iii)(aa) & (bb) | Within 28 days after date | Mayor must take all reasonable steps to ensure that annual performance agreements for municipal managers and all senior managers are linked to measurable performance objectives approved with the budget and to the service delivery and budget implementation plan, and are concluded in accordance with Section 57(2) of the Municipal Systems Act. | Mayor | No date is specified for the completion of this requirement, but the logical inference is that the date should not be much later than the date on which the service delivery and budget implementation plan must be approved. See Section 53(3)(b). |
| 16(1) | 30 June | Annual budget must be approved by council | Council | - |
| 53(3)(a) and (b) | 14 days after approval of service delivery and budget implementation plan (mid-July to mid-August, depending on date plan approved) | Projections of revenues and expenses for each month and service delivery targets for each quarter (as set out in approved service delivery and budget implementation plan), and performance agreements of Accounting Officer and senior manager must be made public, and copies of performance agreements must be submitted to council and MEC for local government. | Mayor | Although this is not specified as a requirement, logic dictates that copies of the service delivery and budget implementation plan should also be submitted to council and the MEC. |

8. COMMENCEMENT

This policy will commence on 1 July 2024, and must be reviewed annually together with the budget related policies.

APPROVED BY:

| NAME | SIGNATURE | DESIGNATION | DATE |
|--------------|---|-------------------------|---------------|
| MS ACR Whyte |  | Chief Executive Officer | 25 April 2024 |