FETAKGOMO – GREATER TUBATSE
LOCAL MUNICIPALITY

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The GTM
GREATER TUBATSE
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South Africa's first democratic platinum city

BUDGET POLICY

POLICY

FINAL- 2017/2018

FETAKGOMO/TUBATSE LOCAL MUNICIPALITY

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DEFINITIONS

"Accounting Officer"

Means the municipal manager;
"Allocation", means-

a) A municipality's share of the local government's equitable share referred to in section 214(i)(a) of the constitution;
b) An allocation of money to a municipality in terms of section 214 (1) (c) of the constitution;
c) An allocation of money to a municipality in terms of a provincial budget; or
d) Any other allocation of money to a municipality by a municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction;

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

"Approved budget", means an annual budget-
Approved by a municipal council, or Includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA;

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

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

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

"Budget transfer" means transfer of funding within a function/ vote.
"Budget year" means the financial year of the municipality for which an annual budget is to be approved in terms of section 16(1) of the MFMA.

"Chief Financial Officer" means a person designated in terms of section 80(2) of the MFMA.
"Councillor" means a member of a municipal council;
"Creditor", means a person to whom money is owed by the municipality;
"Current year" means financial year, which has already commenced, but not yet ended;
"Delegations" in relation to a duty, includes an instruction or request to perform or to assist in performing the duty;
"Financial recovery plan" means a plan prepared in terms of section 141 of the MFMA
"Financial statements", means statements consisting of at least-

a) A statement of financial position;
b) A statement of financial performance;
c) A cash flow statement;
d) Any other statement that may be prescribed; and
e) Any notes to these statements;

"Financial year" means a twelve months period commencing on 1 July and ending on 30 June each year.
"Financing agreement" includes any loan agreement, lease, and instalment purchase contract or hire purchase arrangement under which a municipality undertakes to repay a long term debt over a period of time;

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

"**Irregular expenditure**" means-

a) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA Act, and which has not been condoned in terms of section 170 of the MFMA;
b) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems act, and which has not been condoned in terms of that Act;
c) Expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office Bearers Act, 1998 (Act No.20 of 1998); or
d) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy. And expenditure by a municipality which falls within the definition of unauthorised expenditure";

"**Investment**" in relation to funds of municipality, means-

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

"**Lender**" means a person who provides debt finance to a municipality;

"**Local community**" has the meaning assigned to it in section 1 0f the Municipal Systems Act;

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

"**Municipal Systems Act**" means Local Government: Municipal Systems Act, 2000 (Act No, 32 of 2000)

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

"**Mayor**" means the councillor in terms of the Municipal Structures Act;

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

"**Municipal debt instrument**" means any note, bond; debenture or other evidence of indebtedness issued by a municipality, including dematerialised or electronic evidence of indebtedness intended to be used in trade;

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

"**Municipality**"

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

"**Accounting officer**" means a person appointed in terms of section 82(1) (a) or (b) of the Municipal Structures Act;

"Head" in relation to the Municipality Finance Recovery Service, means a person-

(a) Appointed in terms of section 159 as Head of Service; or
(b) Acting as the Head of the Service;

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

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

"**Municipal tax**" means property rates or other taxes, levies or duties that a municipality may impose;

"**National treasury**" means the national treasury established by section 5 of the Public Finance Management Act;

"**Official**", means-

An employee of a municipality or municipal entity;

a) A person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or

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

"Overspending"

a) Means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;

b) In relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or

c) In relation to expenditure under section 26 of the MFMA, means causing expenditure under that section to exceed the limits allowed in sub section (5) of this section;

"Past financial year" means the financial preceding the current year;

"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
d) 1 April to 30 June

"Service delivery and budget implementation plan" means a detailed plan approved by the Mayor of a municipality in terms of section 53(1) (c) (ii) of the MFMA for implementing the municipality's service delivery of municipal services and its annual budget, and which must indicate-

Projections for each month of

a) Revenue to be collected, by source; and
b) Operational and capital expenditure, by vote;
c) Service delivery targets and performance indicators for each quarter; and
d) Any other matters that may be prescribed, and includes any revisions of each plan by the mayor in terms of section 54(1) (c) of the MFMA;

"**Short term debt**" means debt repayable over a period not exceeding one year;

"**Standard of generally accepted recognised accounting practice**" means an accounting practice complying with standards applicable to municipalities or municipal entities as determined by the Accounting Standard Board.

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

a) Overspending of the total amount appropriated for a vote 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 that for that specific purpose;
e) Spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of allocation otherwise than in accordance with any conditions of the allocation; or
f) A grant by the municipality otherwise than in accordance with the MFMA;

"**Virement**" means transfer of funds between functions/ votes

"**Vote**" means-

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

1) INTRODUCTION

In terms of the Municipal Finance Management Act, No. 56 of 2003, Chapter 4 on Municipal Budgets, Subsection (16), states that the council of a municipality must for each financial year approve an annual budget for the municipality before the commencement of that financial year. According to subsection (2) of the Act concerned, in order to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year. This policy must be read, analysed, explained, interpreted, implemented and understood against this legislative background. The budget plays a critical role in an attempt to realise diverse community needs. Central to this, the formulation of a municipality budget must take into account the government's macro-economic and fiscal policy fundamentals. In brief, the conceptualisation and the operationalisation of the budget must be located within the national government's policy framework.

This policy framework shall be read in the context of the provisions of the following Acts, Regulations and Administrative Guidelines:

a) MFMA Circulars
b) MFMA, Act 56 of 2003
c) Municipal Budget and Reporting Regulations, Government Gazette No 32141 dated 17 April 2009

2) OBJECTIVE OF THE POLICY

The objective of the budget policy is to set out:

a) The principles which the municipality will follow in preparing each medium term revenue and expenditure framework budget,
b) The responsibilities of the mayor , the accounting officer , the chief financial officer and other senior managers in compiling the budget

c) To establish and maintain procedures to ensure Greater Tubatse Municipality's IDP review and budget processes.

3) **QAULITY CERTIFICATION**

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

4) **BUDGETING PRINCIPLES**

a) The Budget and Budget Preparation process shall comply with the requirements of the Municipal Finance Management Act of 2003 and nothing contained in this policy shall contradict the said legislation.
b) The municipality shall not budget for a deficit and should also ensure that revenue projections in the budget are realistic taking into account actual collection levels.
c) Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each vote in the approved budget.
d) Greater Tubatse Local Municipality shall prepare three-year budget (medium term revenue and expenditure framework (MTREF) and that be reviewed annually and approved by Council.
e) The MTREF budget must at all times be within the framework of the Municipal Integrated Development Plan.

(5) BUDGET PREPARATION PROCESS

5.1) Formulation of the Budget

a) The Municipal Manager with the assistance of the Chief Financial Officer and the head of department responsible for IDP shall draft the IDP/Budget process plan as well as the budget timetable for the municipality for the ensuing financial year.

b) The mayor shall table the IDP process plan as well as the budget timetable to Council by 31 August each year for approval (10 months before the start of the next budget year).The IDP/Budget timetable shall contain key deadlines for:

I. The annual review of the IDP
II. The review of budget related policies
III. The preparation, tabling and approval of the annual budget
IV. Heads of Departments shall ensure that they meet the deadline as set out in the IDP/Budget timetable.

- The IDP/Budget steering Committee shall give general direction to the IDP/Budget process and indicate affordable budget growth and envisaged tariffs increases as the baseline of the budget process.
- The mayor shall convene a strategic workshop in with the executive committee and senior managers in order to determine the IDP priorities which will form the basis for the preparation of the MTREF budget taking into account the financial pressure facing the municipality. The mayor shall table the IDP priorities with the draft budget to Council.

- The Mayor shall table the draft IDP and MTREF budget to council by 31 March (90 days before the start of the new budget year) together with the draft resolution and budget related policies (policies on tariff setting , credit control, debt collection, indigents, investment and cash management borrowing, etc).

- The Chief Financial Officer and senior managers undertake the technical preparation of the budget.

- The budget must be in the prescribed format, and must be divided into capital and 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 items.

- The budget must also contain the information related to the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the prior year, and the estimated revenues and expenses for the current year.

5.2) Public participation process

a) Immediately after the draft annual budget has been tabled, the municipality must convene hearings on the draft budget in April and invite the public, stakeholder organisations, to make representations at the council hearing and to submit comments in response to the draft budget.

5.3) Approval of the budget

b) Council shall consider the next medium term expenditure framework budget for approval not later than 31 May (30 days before the start of the budget year).

c) The council resolution, must contain budget policies and performance measures be adopted.

d) 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.

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e) The budget tabled to Council for approval shall include the following supporting documents:

Draft resolutions approving the budget and levying property rates, other taxes and tariffs for the year concerned;

I. Draft resolutions;
II. Measurable performance objectives for each budget vote, taking into account the municipality's IDP;
III. The projected cash flows for the financial year by revenue sources and expenditure votes;
IV. Any proposed amendments to the IDP;
V. Any proposed amendments to the budget- related policies;
VI. The cost to the municipality of the salaries, allowances and other benefits of its political office bearers and other councillors, the accounting officer, the Chief Financial Officer, and other seniors managers;
VII. 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 Non-Government Organisations , welfare institutions and so on;
VIII. Particulars of the municipality's investments; and
IX. Various information regarding to municipal entities under the shared or sole control of the municipality.

5.4) Publication of the budget

Within 14 days after the draft annual budget has been tabled, the Manager Corporate services must post the budget and other budget-related documentation onto the municipal website so that it is accessible to the public as well as send hard copies to National and Provincial Treasury.

The Chief Financial Officer must within 14 days submit the approved budget in both printed and electronic formats to the National Treasury, the Provincial Treasury as well as post it on the municipal website.

5.5 Service Delivery and Budget Implementation Plan (SDBIP)

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

The SDBIP shall include the following components:

I. Monthly projections of revenue to be collected for each source]
II. Monthly projections of expenditure (operating and capital) and revenue for each vote
III. Quarterly projections of service delivery targets and performance indicators for each vote
IV. Ward information for expenditure and service delivery
V. Detailed capital works plan broken down by ward over three years

6. CAPITAL BUDGET

Expenditure of a project shall be included in the capital budget if it meets the asset definition i.e. if it results in an asset being acquired or created and its value exceeds R10 000 and has a useful life in excess of one year.

b) Vehicle replacement shall be done in terms of Council's vehicle replacements policy. The budget for vehicle shall distinguish between replacement and new vehicles. No globular amounts shall be budgeted for vehicle acquisition.

c) A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.

d) 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.

e) Before approving a capital project, the council must consider :

I. The projected cost of the project over all the ensuing financial years until the project becomes operational,

II. Future operational costs and any revenues, which may arise in respect such project, including the likely future impact on operating budget (i.e. on property rates and service tariffs).

f) Before approving the capital budget, the council shall consider:

I. The impact on the present and future operating budgets of the municipality in relation to finance charges to be external loans,

II. Depreciation of fixed assets,

III. Maintenance of fixed assets , and

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

g) Council shall approve the annual or adjustment capital budget only if it has been properly balanced and fully funded.

h) The capital expenditure shall be funded from the following sources:

6.1) Revenue or Surplus

a) IF any project is to be financed from revenue this financing must be included in the cash budget to raise sufficient cash for the expenditure.

b) If the project is to be financed from surplus there must be sufficient cash available at time of execution of the project.

6.2) External loans

a) External loans can be raised only if it is linked to the financing of an asset ;

b) A capital project to be financed from an external loan can only be included in the budget if the loan has been secured or if can be reasonably assumed as being secured.

c) The loan redemption period should not exceed the estimated life expectancy of the asset. If this happens the interest payable on the excess redemption period shall be declared as fruitless expenditure;

d) Interest payable on external loans shall be included as a cost in the revenue budget;

e) Finance charges relating to such loans shall be charged to or apportioned only between the departments or votes to which the projects relate.

6.3) Capital Replacement Reserve (CRR)

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

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

c) Interest on the investments of the CRR, appropriated in terms of the investments policy;

d) Additional amounts appropriated as contributions in each annual or adjustments budget; and

e) Sale of land and profit or loss on the sale of assets.

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

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

h) Transfers to the CRR must be budgeted for in the cash budget;

6.4) Grant Funding

a) Non capital expenditure funded form grants

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b) Must be budgeted for as part of the revenue budget ;

c) Expenditure must be reimbursed from the funding creditor and transferred to

d) The operating must be budgeted for as such.

e) Capital expenditure must be budgeted for in the capital budget;

f) Interest earned on investments of Conditional Grant Funding shall be capitalised if the conditions state that interest should accumulate in the fund.

g) If there is no condition stated the interest can then be allocated directly to the revenue accounts.

h) Grant funding does not need to be cash backed but cash should be secured before Spending can take place.

7. OPERATING BUDGET

a) The municipality shall budget in each annual and adjustments budget for the Contribution to:

I. Provision for accrued leave entitlements equal to 100% of the accrued leave

II. Entitlement of officials as at 30 June of each financial year,

III. Provision for bad debts in accordance with its rate and tariffs policies

IV. Provision for obsolescence and deterioration of stock in accordance with its stores management policy

V. Depreciation and finance charges shall be charged to or Apportioned only between the departments or votes to which the projects relate.

VI. At least 8% of the operating budget component of each annual and adjustments budget shall be set aside for maintenance.

a) When considering the draft annual budget , council shall consider the impact, Of the proposed increases in rates and services tariffs will have on the monthly municipal accounts of households.

b) The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.

c) The operating budget shall reflect the impact of the capital component on;

I. Depreciation charges

II. Repairs and maintenance expenses

III. Interest payable on external borrowings

IV. Other operating expenses.

d) The chief financial officer shall ensure that the cost of indigence relief is separately reflected in the appropriate votes.

8. FUNDING OF CAPITAL AND OPERATING BUDGET

a. The annual budget may be financed only from:

I. Realistically expected revenues, based on current and previous collection levels;

II. Cash-backed funds available from previous surpluses where such funds are not

III. required for other purposes; and

IV. Borrowed funds in respect of the capital budget only.

9. UNSPENT FUNDS / ROLL OVER OF BUDGET

a) 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 expect for funds relating to capital expenditure.

b) Only unspent grant (if the conditions for such grant funding allows that) or loan funded capital budget may be rolled over to the next budget year

c) Conditions of the grant fund shall be taken into account in applying for such roll over of funds

d) Application for roll over of funds shall be forwarded to the budget office by the 15th of April each year to be included in next year's budget for adoption buy council in May.

e) Adjustments to the rolled over budget shall be done during the 1st budget adjustment in the new financial year after taking into account expenditure up to the end of the previous financial year.

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f) No funding for projects funded from the capital Replacement Reverse shall be rolled over to the next budget year except in cases where a commitment has been made 90 days (30 March each year) prior the end of that particular financial year.

g) No unspent operating budget shall be rolled over to the next budget year

10. BUDGET TRANSFERS AND VIREMENTS

a. Budget transfers within the same vote shall be requested by the Director responsible, recommended by the Chief Financial Officer or such senior delegated official in the Budget and Treasury Department and approved by the Municipal Manager.

b. No budget transfers or virement shall be made to or from salaries except with prior approval of the Chief Financial Officer in consultation with the Director Corporate Services.

c. In case of emergencies situations virements shall be submitted by the Municipal Manager to the Mayor for authorization and be reported by the Mayor to Council at its next meeting.

d. The personnel expenditure may not be increased without prior approval of the Chief Financial Officer.

e. Virements are not permitted in relation to the revenue side of the budget;

f. Budget amendments and virement from capita; budgets to operating budget is not allowed.

g. Virement towards personnel expenditure are not permitted; however virement within personnel expenditure are allowed.

h. Budget transfers or virements between votes should be permitted where the proposed shifts in funding facilitate sound risk and financial management (e. the management of central insurance funds and insurance claims from separate votes.

i. Virements to or from the following items shall not be permitted: bulk purchases; debt impairment, interest charges; depreciation, grants to individuals, revenue foregone, insurance and VAT.

j. Virements shall not result in adding new projects to the capital budget;

k. Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework shall not be permitted

l. Directors may utilize a saving in the amount appropriated under a main expenditure category (e.g. Salaries, General Expenses, Repairs & Maintanance, etc) within a vote which is under their control towards the defrayment of excess expenditure under another main expenditure category within the same vote, with the approval of the Chief Financial Officer or such senior delegated official in the Budget & Treasury Department.

m. The amount of a saving under a main expenditure category of a vote that may be transferred to another main expenditure category may not exceed five per cent of the amount appropriated under that main expenditure category.

n. Savings on allocation earmarked for specific operating and capital projects may not be transferred for other purposes except with the approval of the council.

o. The amount of savings under a main expenditure category of a vote that may be transferred to another main expenditure category may not exceed ten percent of the amount appropriated under that main expenditure category.

p. Savings in an amount appropriated for capital expenditure may not be used to defray operational expenditure.

q. Virements between votes other than those indicated above shall be included in the adjustment budget.

r. A quarterly report, indicating all virements affected have to be compiled and submitted to council.

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11. ADJUSTMENT BUDGET

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

a) The chief financial officer shall ensure that the 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.

b) Council may revise its annual budget by means of an adjustments budget at most three times a year or a regulated.

c) The Accounting Officer must promptly adjust its budgeted revenues and expenses if a material under –collection of revenues arises or is apparent.

d) The Accounting Officer shall appropriate additional revenues, which have become available but only to revise or accelerate spending programmes already budgeted for or any areas of critical importance identified by council in compliance with item 2 of section 10.

e) The council shall in such adjustments budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Mayor.

f) The council should 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.

g) Only the Mayor shall table an adjustments budget. Adjustments budget shall be done at most three times a year after the end of each quarter and be submitted to council in the following months:

i. In October – to adjust funding rolled over from the previous financial year as well as to include additional funding that has become available from external sources,

ii. February – to make into account recommendations from the mid-year budget and performance report tabled to council in January that affect the annual budget

iii. May – final budget adjustment to adjust current year's budget in cases where there is an indication that there will be rolling over of funding to the next financial year.

h) An adjustments budget must contain all of the following:

i. An explanation of how the adjustments affect the approved annual budget;
ii. Appropriate motivations for materials adjustments; and
iii. An explanation of the impact of any increases spending on the current and future annual budget.

i) Any inappropriate surplus from previous financial years, even if fully cash-backed, shall not be used to balance any adjustments budget, but shall be appropriated to the municipality's capital replacement reverse.

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

k) Unauthorised expenses may authorise in an adjustments budget.

l) In regard to unforeseen and unavoidable expenditure, the following apply:

i. The mayor may authorise such expenses in an emergency or other exceptional circumstances;
ii. The municipality may not exceed 3 % of the approved annual budget in respect of such unforeseen and unavoidable expenses;
iii. These expenses must be reported by the mayor to the next Council meeting;
iv. The expenses must be appropriated in an adjustments budget; and
v. Council must pass the adjustments budget within sixty days after the expenses were incurred.

12. BUDGET IMPLEMENTATION

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12.1 Monitoring

a. The Accounting officer with the assistance of the chief financial officer, other Directors and Line Managers is responsible for the implementation of the budget, and must take reasonable steps to ensure that:

I. funds are spent in accordance with the budget;
II. expenses are reduced if expected revenues are less than projected; and
III. Revenues and expenses are properly monitored.

b. The accounting officer with the assistance of the chief financial officer must prepare any adjustments budget when such budget is necessary and submit it to the mayor for consideration and tabling to council.

c. The Accounting officer must report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any impeding overspending, together with the steps taken to prevent or rectify these problems.

12.2 Reporting

12.2.1 Monthly budget statements

a. The accounting officer with the assistance of the chief financial officer must, not later than ten working days after the end of each calendar month, submit to the mayor and Provincial and National Treasury a report in the prescribed format on the state of the municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

This report must reflect the following:

i. Actual revenues per source, compared with budgeted revenues;

ii. Actual expenses per vote, compared with budgeted expenses;
iii. Actual capital expenditure per vote, compared with budgeted expenses;
iv. Actual borrowings, compared with the borrowings envisaged to fund the capital Budget;
v. The amount of allocations received, compared with the budgeted amount;
vi. Actual expenses against allocations, but excluding expenses in respect of the equitable share;
vii. Explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote as set out in the service delivery and budget implementation plan;
viii. The remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget ; and
ix. Projections of the revenues and expenses for the remainder of the financial year, together with an indication of how and where the original projections have been revised.

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

12.2 Quarterly Reports

a. The mayor must submit to Council within thirty days of the end of each Quarter a report on the implementation of the budget and the financial state of affairs of the municipality.

12.3 Mid-year budget and performance assessment

a. The accounting officer must assess the budgetary performance of the municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the municipality as against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan.

b. The accounting officer must then submit a report on such assessment to the mayor by 25 January each year and to council, Provincial Treasury and National Treasury by 31 January each year.

c. The Accounting officer may in such report make recommendations after considering the recommendation of the Chief Financial Officer for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.

13) CONCLUSION

The Director Corporate Services must place on the municipality's official website the following:

a. The annual and adjustments budgets and all budget-related documents;
b. All budget-related policies;
c. The integrated development plan;
d. The annual report;
e. All performance agreements;
f. All service delivery agreements;
g. All long-term borrowing contracts;
h. All quarterly and mid-year reports submitted the Council on the implementation of ht e budget and the financial state of affairs of the municipality.

14. POLICY AMMENDMENT

No amendments may be made to any section of this without such amendment(s) first being:

a) Consulted upon with the Chief Financial Officer and the Municipal Managers.
b) Duly approved and signed by the Council.

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FETAKGOMO – GREATER TUBATSE
LOCAL MUNICIPALITY

The GTM
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1. Background and purpose

1.1 Each year, the Municipality produces an annual budget which must be approved by Council. In practice, as the year progresses, circumstances may change so that certain estimates are under-budgeted and others over- budgeted due to unforeseen expenditure (for example, due to the occurrence of disasters or savings). As a result, it becomes necessary transfer funds between votes and line items. It is not practical to refer all transfers between line items within a specific vote to the Council, and as the **Local Government: Municipal Finance management Act ('MFMA")** is largely silent as to such transfers, it is necessary to establish a policy which governs the administrative transfer between line items.

1.2 The purpose of this policy is therefore to provide a framework whereby transfers between line items within votes of the operating budget may be performed with the approval of certain officials.

2. Definitions

1. Virement is the process of transferring funds from one line of a budget to another. The term is derived from French word meaning a commercial.
2. Vote: For ease of reference , the definition of "vote" as contained in Section 1 of the MFMA is set out hereunder: ' vote" means-
   a) *One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and*
   b) *Which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.*

3. Policy options identification, analysis and assessment

3.1 This policy applies only to transfer between line items within votes of the Municipality's operating budget.

3.2 Section 28(2) (d) of the MFMA provides that "An adjustments budget- may authorize the utilization of projected savings in one vote towards spending in another vote." Transfer between votes may therefore be authorized only by the Council of the Municipality.

3.3 This policy shall not apply to transfers between or from capital projects or items and no such transfers may be performed under this policy.

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3.4 Any deviation from or adjustment to an annual budget or transfers within a budget which is not specifically permitted under this policy or any other policy may not be performed unless approved by the council through an adjustments budget.

4. Authorization of Virements

A transfer of funds from one line to another under this policy may, subject to the provisions of this policy, be authorized as follows:

4.1 If the amount does not exceed R5000.00, the transfer may be authorized by the Budget Specialist or the Specialist: Treasury of the Municipality after consultation with the Manager: budget & Treasury;

4.2 If the amount exceeds R10 000, but does not exceed R30000, the transfer may be authorised by the Manager: Budget and Treasury after consultation with the Chief Financial Officer;

4.3. If the amount exceeds R30, 000.00 but does not exceed R60, 000.00, the transfer may be authorized by the chief financial officer of the Municipality on the recommendation of the municipal manager.

4.4. Notwithstanding the provisions above, a transfer of funds between cost centres within a particular vote may not be authorized by the Chief Financial officer but may only be authorized by Municipal Manager.

5. Limitations on amount of Virement

5.1 **Notwithstanding the provisions of section 3:**

5.1.1. The total amount transferred from and to line items within a particular vote in any financial year may not exceed 10% of the allocated to that vote;

5.1.2. The total amount transferred from and to line items in the entire budget in any financial year may not exceed 10% of the total operating budget for that year;

5.1.3. The amount of any one transfer of funds between line items may not exceed the sum of R 2 000,000.00.

5.2 A transfer which exceeds, or which would results in the exceeding of, any of the limits referred to in 4.1 above may, however, be performed if the Council, by resolution approves thereof.

6. **Virement Permitted only if Savings are projected**

A transfer of funds from one line item to another may take place only if savings within the first-mentioned line item are projected, and such transfer may, subject in any event to the provisions of this policy, not exceed the amount of such projected savings.

7. **Further Restrictions on Virement**

7.1. A transfer of funds between line items shall not be permitted under this policy if the effect thereof would be to:

7.1.1. Contravene any policy of the Municipality; or

7.1.2. Alter the approved outcomes or outputs of an Integrated Development Plan; or

7.1.3. Result in an adjustment to the Service Delivery and Budget Implementation plan.

7.2. If any line item has been specifically ring-fenced, no transfer shall be made under this policy to or from such line item.

7.3. **Transfers of funds may not be made under this policy between or from capital items or projects.**

7.4. To the extent that it is practical to do so, transfers within the first three months and the last month of the financial year should be avoided.

7.5. By definition, transfers may not be under this policy from a line item administered by one department to a line item administered by another.

7.6. In accordance with Section 30 of the MFMA, no transfer of funds may be made from a line item of a budget for a particular year to a line item of a budget for a subsequent year.

7.7. The transfer of fund in any year in accordance with this policy shall not give rise to any expectations of a similar transfer occurring in a subsequent year.

7.8. The approval of any transfer shall not per se constitute authorization for expenditure, and all expenditure resulting from approved transfers

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must, be carried out in accordance with the Municipality s Supply Chain management Policy

7.9. The transfer of funds must in any event not contravene the provisions of paragraph 4.6 of MFMA Circular 51(Municipal Budget Circular for the 2010/2011 MTREF) issued on 19 February 2010, which provides, inert alia, as follows:

1. Virements should not be permitted in relation to the revenue side of the budget

2. Virement between votes should be permitted where the proposed shifts in funding facilitate sound risk and financial management (e.g. the management of central insurance funds and insurance claims from separated votes);

3. Virements from capital budget to the operating budget should not be permitted;

4. Virements towards personnel expenditure should not be permitted;

5. Virements to or from the following items should not be permitted: bulk purchases; debt impairment; interest charge; depreciation; grants to individuals, revenue forgone, insurance and VAT;

6. Virement should not result in adding new projects to the capital Budget;

7. Virements of conditional grants funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted.

8. Procedure for Virement

8.1 Approval for transfer must be made by the Executive Manager of the concerned department.

8.2 The Budget Office shall prescribe a form on which all proposals for transfer of funds under this policy shall be made, which form shall include, but not be limited to, provisions for the following:

8.2.1 The name of the department concerned;
8.2.2 Descriptions of the line items from and to which the transfer is to be made;
8.2.3 The amount of the proposed transfer;

8.2.4 The cause of the saving in the line item from which the transfer is to be made;
8.2.5 The Justification or motivation for the transfer;
8.2.6 A description of any consequences that such transfer may have for the integrated Development plan or the service Delivery and Budget Implementation Plan.

8.3 Each proposal for a transfer shall be submitted by the Director concerned to the Budget Office and if:

8.3.1 The amount of transfer does not exceed the amount referred to in paragraph 3.1 and 3.2, and the transfer is not between cost centres, the Specialist Budget or manager: Budget & Treasury shall:

8.3.1.1 Approve the proposal, or
8.3.1.2 Reject the proposal; or
8.3.1.3 Refer the proposal to the Chief financial Officer for approval or rejection;

8.3.2 The amount of the transfer does not exceed the amount referred to in paragraph 3.3 but the transfer is between cost centres, or if it falls within the range of amounts referred to in paragraph 3.4, the Chief Financial Officer shall refer the proposal to the Municipal Manager who, after consultation with the Chief Financial Officer, shall approve or reject the proposal;

8.4 Upon a proposal for transfer being approved, such transfer shall be implemented subject to compliance with the Municipality s Supply Chain Management Policy.

9. Implementing Strategy

The Municipal manager shall submit a report on all transfers made under this policy to the Mayor every quarter (September; December; March; June).

The municipal Manager shall be responsible for the implementation and administration of this policy.

This policy will be effective on the date of adoption by Council.

10. Policy Evaluation and review

The Municipality would evaluate and review the policy on an annual bases and make changes if it is necessary.

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FETAKGOMO LOCAL MUNICIPALITY
Provisional

FETAKGOMO – GREATER TUBATSE
LOCAL MUNICIPALITY

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1. DEFINITIONS

"**Act**" Means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

"**Disclosure statements**" means a statement issued or to be issued by:

- a municipality which intends to incur debt by issuing municipal debt instructions; and
- A person who intends to incur debt by issuing securities backed by municipal debts.

"**Financing agreement**" means any loan agreement, lease, instalment, purchase arrangement under which a municipality undertakes to repay a long-term debt over a period of time.

"**Lender**" means a person who provides debt finance to the municipality.

"**Long term debt**" means debt repayable by the municipality over a period exceeding one (1) year.

"**Municipal debt**" means:

a) A monetary liability or obligation on a municipality by:
   - A financing agreement , note, debenture, bond or overdraft; and
   - The assurance of municipal debt instruments.
b) A contingent liability such as that created by guaranteeing a monetary liability or obligation of another.

"**Security**" means any mechanism intended to secure the interest of a lender or investor and includes any of the mechanisms mentioned.

"**Short term debt**" means debt that is repayable over a period not exceeding one (1) year.

2. **INTRODUCTION**

Considering the large demand for municipality infrastructure, borrowing is an important element to obtain additional funding sources to fund the municipal capital programme over the medium term.

The purpose of the policy is to govern the taking up of short-term debt according to the legislative framework.

3. **OBJECTIVES OF POLICY**

The objectives of the policy are to:

3.1 Enable the municipality to exercise their obligation to ensure sufficient cash resources to implement their capital programme is the most cost effective manner.

3.2 Ensure compliance with the relevant legal and statutory requirements relating to municipal borrowing.

3.3 Manage interest rate and credit risk exposure.

3.4 Maintain debt with specified limits and ensure adequate provision for the repayment of debt.

3.5 To maintain financial sustainability.

4. **LEGISLATIVE**

The legislative framework governing borrowings are:

4.1 Local Government Municipal Finance Management Act, Act 56 of 2003; and

4.2 Local Government Municipal Regulations and Debt Disclosure, Regulation R492, published under Government Gazette 29966, 15 June 2007.

5. **COMPULSORY DISCLOSURES WHEN INCURRING MUNICIPAL DEBT**

5.1 When entering into discussions with prospective lender with a view to incur municipal debt, the municipality must indicate in writing to the prospective lender whether it intends to incur short-term or long-term debt.

5.2 In the case of short-term debt it must be disclosed whether the debt is to bridge:

a) Shortfalls within a financial year during which the debt is incurred, in expectation or specific and realistic anticipated revenue to be received within that financial year; or

b) Capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocation or long-term debt commitments.

5.3 In the case of long-term debt, whether the purposes of the debt is for:

a) Capital expenditure on property, plant or equipment to be used for the purpose of achieving the objectives of local government, subject to section 46(4) of the Act.

b) Refinancing of existing long-term debt, subject to section 46(5) of the Act.

6. **PROCESS**

The process as required by the Act is as follows:

Short- term debt

6.1 A municipality may incur short-term debt only if:

a) A resolution of the municipal council , signed by the executive mayor , has approved the debt agreement; and

b) The accounting officer has signed the agreement or other document which creates or acknowledges the debt.

6.2 A short term debt transaction may be:

a) Approve individually; or

b) Approve an agreement with a lender for short-term credit facility to be accessed as and when required , including a line of credit or bank overdraft facility, provided that:

I. The credit limit must be specified in the resolution of the council.

II. In terms of the agreement, including the credit limit, may be changed only by a resolution of the council; and

III. If the council approves a credit facility that is limited to emergency use, the accounting officer must notify the council in writing as soon as practical of the amount , duration and cost of any debt incurred in terms of such a credit facility, as well as options for repaying such debt.

6.3 A municipality:

(a) Must pay off short-term debt within the financial year; and

(b) May not renew or refinance short-term debt, whether its own debt or that of any other entity, where such renewal or refinancing will have the effect of extending the short-term debt into a new financial year.

6.4 No lender may wilfully extend credit to a municipality in contravention of renewing or refinancing short-term debt that must be paid off in terms of subsection 6.3(a)

6.5 If a lender wilfully extends credit to a municipality in contravention of paragraph 6.4, the municipality is not bound to repay the loan or interest on the loan.

6.6 Subsection 6.5 does not apply if the lender:

a) Relied in good faith on written representations of the municipality as to the purpose of the borrowing; and

b) Did not know and had no reason to believe that the borrowing was for the purpose of renewing or refinancing short-term debt.

Long –term debt

6.7 A municipality may incur long-term debt only if:

a) A resolution of the municipal council, signed by executive mayor; has approved the debt agreement, and

b) The accounting officer has signed the agreement or other document which creates or acknowledges the debt.

6.8 A municipal may incur long –term debt only if the accounting officer of the municipality:

a) Has, in accordance with section 21A of the Municipal System Act:

   i. At least twenty one(210 days prior to the meeting the council at which approval for the debt is to be considered, made public an information statement setting out particulars of the proposed debt, including the amount of the proposed debt, the purposes for which the debt is to be incurred and particulars of any security to be provided,; and

   ii. Invite the public, the National Treasury and the relevant provincial treasury to submit written comments or representations to the council in respect of the proposed debt; and

b) Has submitted a copy of the information statement of the municipality council at least twenty one (21) days prior to the meeting of the council , together with particulars of:

   I. The essential repayment terms, including the anticipated debt repayment schedule; and

   II. The anticipated total cost in connection with such debt over the repayment period.

6.9 Capital expenditure contemplated in 5.3(a) may include:

a) Financing costs, including :

   I. Capitalised interest for a reasonable initial period.

   II. Costs associated with security arrangements in accordance with section 48 of the Act;

   III. Discount and fees in connection with the financing;

   IV. Fees for legal, financial, advisory, trustee, credit rating and other services directly connected to the financing; and

   V. Costs connected to the sale or placement of debt, and costs for printing and publication directly connected to the financing.

b) Cost of professional service directly related to the capital expenditure; and

c) Such other cost may be prescribed.

6.10 A municipality may borrow money for the purpose of refinancing existing long-term debt, provided that:

a) The existing long-term debt was lawfully incurred;

b) The refinancing does not extend the term of the debt beyond the useful life of the property, plant or equipment for which the money was originally borrowed;

c) The net present value of projected future payments (including principal and interest payments) after refinancing is less than the net present value of projected future payments before refinancing;

d) The discount rate used in projecting net present value referred to in paragraph ©, and any assumptions in connection with the calculations, must be reasonable and in accordance with criteria set out in a framework that may be prescribed.

6.11 A municipality's long-term debt must be consistent with its capital budget referred to in section 17(2) of the Act.

7. CONDITIONS APPLYING TO BOTH SHORT-TERM AND LONG-TERM DEBT

7.1 a municipality may incur debt only if:

a) the debt is denominated in rand and is not indexed to, or affected by fluctuations in the value of rand against any foreign currency; and

b) Section 48(3) of the Act has been complied with, if security is to be provided by the municipality.

8. SECURITIES

8.1 A municipality may by resolution of its council provide security for:

a) Any of its obligation; and

b) Contractual obligation of the municipality undertaken in connection with capital expenditure by the person of the property, plant or equipment to be used by the municipality or such other person for the purpose of achieving the objectives of local government in terms of section 152 of the constitution.

8.2 Appropriate security is contemplated in section 48(2) of the Act.

8.3 Other additional conditions to be complied with the contemplated in section 48(3) to (5) of the Act.

9. DISCLOSURE

9.1 Any person involved in the borrowing of money by a municipality must, when interacting with a prospective lender or when preparing documentation by a prospective investor

a) Disclose all information in that person 's possession or which that person's knowledge that may be material to the decision of that prospective lender or investor; and

b) Take reasonable care to ensure the accuracy of any information disclosed.

9.2 A lender or investor may rely on written representations of the municipality signed by the accounting officer, if the lender or investor did not know and had no reason to believe that those representations were false or misleading.

10. GUARANTEES

10.1 A municipality may not issue any guarantee for any commitment or debt of any organ of state or person, except on the following condition:

a) The guarantee must be within limits specified in the municipality's approved budget.

10.2 Neither the national nor provincial government may guarantee the debt of a municipality expect to the extent that chapter 8 of the public finance Management Act provides for such guarantees

11. SUBMISSION OF DOCUMENTS

11.1 When entering into discussion with a prospective lender with a view to incur short-term debt, the following information must be made available to the prospective lender.

a) Audited financial statements for the preceding three (3) financial years with audited outcomes;

b) Approved annual budget;

c) The municipal integrated development plan;

d) Repayment schedules pertaining to existing short-term or long-term debt.

12. NOTIFICATION TO NATIONAL TREASURY

12.1 The following information must be provided to National Treasury with respect to a long-term debt proposal:

Details	MFMA
a) A copy of the information statement required by section 46(3), containing particulars of the proposed borrowing (Debt) instrument: ▪ The name of the municipality; ▪ Where the municipality is located; ▪ Particulars of the proposed debts;	46(3)(a)(i)

Details	
▪ Amount of proposed debt; ▪ Purposes for which the debt is to be incurred; and ▪ Particulars of any security to be provided.	
b) If not already incorporated in the information statement, the following information is provided separately: ▪ Amount of debt to be raised through borrowing or other means; ▪ Issue date; ▪ Purposes for which the borrowing (debt) is to be incurred; ▪ Interest rate(s) applicable (state whether fixed or variable etc); ▪ Planned start and end date (term of instrument);	46(3)(b)(i), (ii)

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- Detailed repayment schedule for the duration of the borrowing (debt) (showing dates and all payments of principal and interest etc.);
- Final maturity date;
- Total estimated cost of the borrowing (debt) over the repayment period;
- Type of instrument;
- Debt amortisation terms;
- Security to be provided and provide details; and
- Source of loan funds.

c) A Schedule of consultation undertaken, including: ▪ Date(s) when the information statement was made public; and ▪ Details of meetings, media adverts and other long-term borrowing (debts);	<u>MFMA</u> 46(3)(a)(i),ii
d) A copy of the approved budget and relevant documentation supporting the budget, highlighting the assets(s) to be funded by the proposed borrowing (debt) and the revenue to be received. It must be demonstrated that the proposed borrowing (debt) is consistent with the IDP, the capital budget and the revenue is shown accordingly.	46(6) 17(2) 19
<u>Details</u> e) If the borrowing (debt) is for the purpose of refinancing existing long-term borrowing (debt), the following information must be provided: ▪ Description of the asset(s) for which the original loan was required; ▪ The useful remaining life of the assets(s) ▪ The net present value of the assets(s), including the discount rate used and any assumptions in the calculations; ▪ The net present value of projected future payment <u>before</u> refinancing, including the discount rate and assumptions used; and ▪ The net present value of projected future payment <u>after</u> refinancing, including the discount rate and assumptions used.	<u>MFMA</u> 46(5)
f) A copy of the council/board of directors' resolution approving the borrowing (debt) instruments should be forwarded to National and relevant provincial Treasury once approved.	

13) FINANCIAL AFFAIRS OF THE MUNICIPALITY

13.1 The following information concerning the financial situation and financial management of the municipality must be disclosed:

a) Schedule of all long-term obligations stating principal and interest payments for the life of all loans and any security provided to secure such debts;

b) The amount of any short-term debt outstanding;

C) the revenue of the municipality for the preceding three (3) financial years stated separately:

i. Government grants and public donations;
ii. Revenue from rates and services charges; and
iii. Other revenue sources

c) What source of funding will be used to repay the loan;

d) Details of any default by the municipality on outstanding or repaid debt during the preceding three (3) years;

e) The reserves of the municipality

f) A summary of financial policies and practices; and

g) The latest credit rating obtained.

14. INTEREST RATE RISK

14.1 As a general principle when interest rates are expected to decrease, it is advisable that a floating rate be negotiated in order to take advantage of the lower interest rate in future. If interest rates are expected to increase, it is advisable to obtain a fixed rate so that the benefits of the current low interest rate are maintained.

14.2 The interest risk must be limited in so far as possible. The policy directive is to negotiate fixed interest rates for all long-term borrowings. This will ensure stability of the repayments and reduce the risk for high rates and tariff increases as a result of interest rate hikes in the market.

14.3 Variable rates should be considered for short-term only.

15. LIMITATION

To ensure a financial viable municipality the following ratio are used to determine the municipal gearing ability to borrow:

- Long-term credit rating BBB;
- Interest cost to total expenditure to not exceed 8%;
- Long-term debt revenue (excluding grants) not be exceed 50%;
- Payment rate mature above 95%; and
- Percentage of capital charges to operating expenditure less than 18%.

16. REVIEW

This policy will be reviewed annually to ensure that it complies with changes in applicable legislation and regulation.

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