dr.jsmlm

Dr JS Moroka Local Municipality

REVIEWED FOR 2026/2027 FINANCIAL YEAR

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1. OBJECTIVE OF THE POLICY

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

2. DEFINITIONS

In this Policy, unless the context indicates otherwise, the following definitions are applied:-

"CFO" means the Chief Financial Officer of the municipality, aperson designated in terms of section 80(2)(a) of the Local Government: Municipal Finance Management Act,56 of 2003

"Municipal Manager" means the person appointed in the municipality in terms of section 82(1)(a) or (b) of the Municipal Structures Act

"Council" refers to the Municipality and its successors in law and it includes the Council of that Municipality or its Executive Committee or any other body acting by virtue of any power delegated to it in terms of legislation, as well as any official to whom the Executive Committee has delegated any powers and duties with regard to this policy.

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

"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 the contingent liability such as that created by guaranteeing the monetary liability or obligation of another;

"Zero-based budget" means a budget that is built around the normal needs of the institution, regardless of whether the budget is higher or lower than the previous one.

"Incremental budget" means a budget prepared using a previous period's budget or actual performance as a basis with incremental amounts added for the new budget period.

"Activity based budget" means costing of an activity by identifying and measuring the driver that creates the main cost

3. BUDGET POLICY PREAMBLE

The object of the MFMA is to secure sound and sustainable management of the financial affairs of the municipalities and other institutions in the local sphere of government; to establish treasury norms and standards for the local sphere of government; and to provide for matters connected therewith.

Whereas Section 215 of the Constitution of the Republic of the South Africa, 1996 requires the National, Provincial and Local sphere of government to draft budgets that promotes transparency, accountability and the effective financial management of the economy, debt and the public sector. The constitution furthermore states that budget in each sphere of government must contain:

1) estimates of revenue and expenditure, differentiating between capital and operating expenditure,
2) proposals for financing any anticipated deficit for the period to which they apply, and
3) an indication of intension regarding borrowing and other forms of public liability that will increase public debt during the ensuing year.

Whereas Section 16 of the Local Government: Municipal Finance Management Act, 2003 (Acts 56 0f 2003) requires that Municipal approves annual budget before the start of the financial year, adopt, maintain and implement a Budget Policy.

Whereas Section 56 of the Municipal Structure Act, 1998 (Act 117 of 1998) prescribes the function and powers of the Executive Mayor who must recommend to the municipality the Integrated Development Plan which carries the financial plan and budget projections to carry out service delivery. The Mayor delegates this responsibility to the Accounting Officer to prepare the budget together with the Chief Financial Officer, Executive Directors and other Officials.

Whereas Section 26 of the Municipal Systems Act, 2000 (Act 32 of 2000) requires the Municipality to have the Integrated plan with a financial plan, which must include a budget projection for at least the next three years;

Whereas the Council has approved the five (5) year programme which prescribes the management of Municipality financial affairs through determination of priorities, the planning of Medium-Term Framework.

4. BUDGETING PRINCIPLES TO BE FOLLOWED

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

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

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

4.4 The Municipality shall for the purposes of each annual budget be guided by the Integrated Development Plan (IDP) 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:

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

4.4.2 Interest on the investments of the asset financing reserve, appropriated in terms of the banking, cash management and investments policy;

4.4.3 Further amounts appropriated as contributions in each annual or adjustments budget; and

4.4.4 Net gains on the sale of fixed assets in terms of the fixed asset management and accounting policy.

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

4.6 Any inappropriate 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 Council and should the inappropriate surplus sufficient the

be ,

Council may transfer from the inappropriate surplus to any providing for

fund

the financing of capital assets.

4.7 An impending operating deficit shall be made good in an adjustments budget, but if an operating deficit arises at the end of a financial year, notwithstanding the precautionary measures adopted by the Council, such deficit shall immediately be made good in the annual or adjustments budget for the ensuing financial year. However, depending on the circumstances the operating deficit may offset against any inappropriate surplus carried forward from preceding financial years but only after being approved by the Council.

4.8 The Municipality shall establish and maintain a provision for accrued leave entitlement equal to 100% of the accrued leave entitlement of officials as at 30 June of each financial year, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

4.9 The Municipality 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 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 Municipality has sufficient cash flow to meet all its budgeted commitments for the financial year.

4.10 The Municipality shall establish and maintain a provision for the obsolescence and deterioration of stock in accordance with its stores management policy, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

4.11 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.

4.12 Finance charges on loans payable by the Municipality shall be apportioned between departments or votes on the basis of the departments using such fixed assets financed from the loans.

4.13 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.

4.14 The allocation of interest earned on the Municipality's investments shall be budgeted for in terms of the banking, cash management and investments policy.

4.15 The Municipality shall adequately provide in each annual and adjustments budgetfor the maintenance of its fixed assets in accordance with its fixed asset management policy. At least 5% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.

4.16 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 Municipality's approved policies and contractual and statutory commitments (for example, depreciation charges, finance charges, insurance costs, etc.).

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

4.18 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 Executive Committee. In justifying theallocations made to and within the vote, the head of department, service or function concerned shall provide the Municipal Manager 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 Municipal Manager and the Mayor. Changes in the SDBIP during the financial year should be supported by the adjustments budget.

4.19 When considering the draft annual budget, the Council 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 Council shall ensure that the average additional impact of such increases is in keeping with the relevant increase in the consumer price index.

4.20 The adjustment budget shall only be considered to regularise situations where particular votes are going to be over or under spent. No new allocations unless specifically authorized by Council will be included in the adjustment budget.

5. VIREMENT

5.1 VIREMENT REQUIREMENTS

6.1.1 The virement process represents the major mechanism to align and take corrective (financial / budgetary) action within a Department during a financial year.

6.1.2 In order for a "vote" to transfer funds from one cost element or capital project to another cost element or capital project, a saving has to be identified within the monetary limitations of the approved "giving" cost element or capital project allocations on the respective budgets.

6.1.3 Sufficient, (non-committed) budgetary provision should be available within the "giving" vote's cost element or project concerned to give effect to the budgetary transfer (virement). In addition, the transferring function must clearly indicate to which cost element or capital project the budget provision will be transferred to and provide a clear motivation for the transfer.

6.1.4 Any budgetary amendment of which the net impact will be a change to the total approved annual budget allocation and any other amendments not covered in this policy are to be considered for budgetary adoption via an adjustments budget (per MFMA Section 28)

6.1.5 In terms of Section 17 of the MFMA a municipality's budget is divided into an operating and capital budget and consequently no virements are permitted between Operating and Capital Budgets.

6.1.6 Virements between Trading and Rates-funded functions are not allowed, due to the differing impacts on respective tariff or Rates-borne services budgets, unless adopted via adjustment budgets (per MFMA Section 28).

6.2 OPERATING BUDGET VIREMENTS

6.2.1 Virements are not allowed to utilize special purpose budgetary allocations, adopted by council as such and to which specific Council recommendations apply (e.g. budget strategy for growth in repairs and maintenance provisions) and which result from specific resolutions adopted when adopting the budget, as virements sources. Sound motivations should be provided for all virements, as provided for on pro forma virement documentation.

6.2.2 Specific virement limitations:

No virements are permitted between Primary and Secondary cost elements.

No virements are permitted to and from Grants and Subsidies paid, except if supported by Council division for such transfer and as per the approved Grants-in-Aid Policy.

Salaries, Wages and Allowances subjective category:

Virements are allowed between cost elements of – and only if these virements are within – this subjective category.

Virements to and from this subjective expenditure category are subject to the approved for the Executive Manager: Budget.

Remuneration of Councillors:

Virements within this category are allowed.

No virements to and from this category are allowed.

6.2.3 General expenditure and repairs and maintenance (primary). Virements to and from cost elements within these categories are allowed (Virements are allowed from General Expenditure to repairs and Maintenance).

The following cost elements categories are not to be used as sources of virements, but virements are allowed within each category:

- ✓ Training related expenditure
- ✓ Bargaining council provisions and skills development levies
- ✓ Insurance related provisions
- ✓ Pensioner and continued members
- ✓ Repairs and maintenance

No virements are allowed to and from the following cost elements or provisions:

- ✓ Capital Expenditure-related elements

- ✓ Scrapping of assets / stock
- ✓ VAT
- ✓ Insurance Fund

6.2.4 Repairs and maintenance (primary) virements are to be processed via internal orders

6.2.5 Contracted services and collection costs

- Virements to and from these elements are allowed.

6.2.6 No virements will be permitted to and from the following expenditure categories, unless such amendments are effected within the cost element:

- ✓ Bulk purchases
- ✓ Bad Debt
- ✓ Interest charges and depreciation
- ✓ Indigent relief and income forgone
- ✓ Appropriation accounts

6.2.7 No virements will be approved on any Revenue element. Revenue provisions' amendments to be adopted via an adjustment budget.

6.2.8 Secondary Operating Cost Elements

6.2.8.1 Virements are allowed within the same cost elements. The service requestor and service provider must both endorse such virements.

6.2.8.2 Internal Utilities and Bulk Internal Utilities virements are permissible, on condition that the respective Internal Utilities Revenue and Bulk Internal Utilities Revenue are amended simultaneously.

6.2.8.3 Virements are only permitted within the same cost element in the following categories:

- ✓ Activity based recoveries
- ✓ Internal Utilities
- ✓ Bulk Internal Utilities

6.2.8.4 Virements may not increase the total approved budget of that cost element.

6.2.8.5 Virements are not permissible in relation to Support Service Charges.

6.2.8.6 No virements which relate to Insurance departmental premiums or Internal Capital Charges will be permitted.

6.2.9 Ward Allocations Projects

6.2.9.1 All Conditions under "Operating Budget Virements" section above should be met, as well as the following when transferring between ward allocation projects.

- ✓ Only virements between existing projects approved by council, within the same sub- council, and within the same department will be permitted.
- ✓ Virements will only be considered if approved by the relevant sub-council and supported by the project manager and finance manager of the projects involved.
- ✓ Motivations for virements between projects should clearly state reasons for the saving within the "giving" project, as well as reasons for the additional amount required.

6.3 CAPITAL BUDGET VIREMENTS

6.3.1 Only virements which relate to projects approved as part of annual or adjustment budget, will be permitted.

6.3.2 No virements, of which the affect will be to add "new" projects onto the Capital Budget, will be allowed.

6.3.3 Virements may not cause an increase to individual projects' total projects cost.

6.3.4 Virements must be between projects of similar funding sources (e.g. EFT

↔ EFT).

6.3.5 Implementation of the project from which funds are viremented may not be prejudiced (i.e. must not hinder completion of the project).

6.3.6 Motivations for virements should clearly state the reason for the saving within the "giving" project, as well as the reason for the additional amount requested.

6.3.7 Secondary Capital Cost Elements:

- ✓ Virements are permissible only within the same cost elements of different projects.
- ✓ The service requestor and service provider must endorse such virements.
- ✓ Proposed secondary capital expenditure virements must be approved by the executive manager: budget (CFO)

6.3.8 Ward allocation projects:

- ✓ Only virements between existing projects approved by council, within the same sub-council and within the same department will be permitted.
- ✓ Virements will only be considered if approved by the relevant sub-council and supported by the project manager and finance manager of the projects involved.
- ✓ Motivations for virements between projects should clearly state reasons for the saving withing the "giving" project, as well as reasons for additional amount required.

7 RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER (DELEGATIONS BY ACCOUNTING OFFICER)

7.1 Without derogating in any way from the legal responsibilities of the Municipal Manager as accounting officer, the Chief Financial Officer shall be responsible forpreparing 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 Municipal Manager in regard to the performance of these functions.

7.2 The Municipal Manager shall ensure that all heads of departments provide input required by the Chief Financial Officer into these budget processes.

7.3 The Chief Financial Officer shall draft the budget timetable for the following financial year for the Mayor's approval, and shall indicate in such timetable the target dates for the draft revision of the annual budget and the preparation of the annual budget for the ensuing financial year, which target dates shall follow the prescriptions of the Municipal Finance Management Act, and target dates for the submission of all the budget-related documentation to the Mayor, Finance Committee, Executive Committee and Council.

7.4 In preparing the operating budget, the Chief Financial Officer shall determine thenumber and type of votes to be used and the line-items to be shown under eachvote, provided that in so doing the Chief Financial Officer shall properly and adequately reflect the organisational structure of the Municipality, and further in so doing shall comply – in so far as the organisational structure permits – also with the prescribed budget format of National Treasury.

7.5 The Chief Financial Officer shall determine the depreciation expenses (where applicable) to be charged to each vote, the apportionment of interest payable tothe appropriate votes and the contributions to the provisions for bad debts, accrued leave entitlements and obsolescence of stocks.

7.6 The Chief Financial Officer shall with the approval of the Mayor and the Municipal Manager, and having regard to the Municipality's current financial performance, determines the recommended aggregate growth factor(s) according to which the budgets for the various votes shall be drafted.

7.7 The Chief Financial Officer shall compile monthly budget reports comparing actual results with budgeted projections, and the heads of departments shall timeously and adequately furnish the Chief Financial Officer with all explanations required for deviations from the budget. The Chief Financial Officer shall submit these monthly reports to the Mayor, Finance Portfolio Committee and Executive Committee, and all other prescribed parties, in accordance with the prescriptions of the Municipal Finance Management Act.

7.8 The Chief Financial Officer shall provide technical and administrative support to the Mayor in the preparation and approval of the annual and adjustment budgets, as well as in the consultative processes, which must precede the approval of such budgets.

7.9 The Chief Financial Officer shall ensure that the annual and adjustments budgets comply with the requirements of the National Treasury, reflect the budget priorities determined by the Mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the Mayor on the revision of the IDP and the budget-related policies where necessary.

7.10 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.

7.11 The Chief Financial Officer shall determine the basis for allocating overhead expenses.

7.12 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) areappropriately recorded.

7.13 Accountability to ensure that virement application forms (executive summary) are completed in accordance with council's virement policy and are not in conflict with the executive Manager's strategic objectives manifests with the head of the relevant Department.

7.14 Completed virement documentation is to be authorised by the executive manager of the applicable cost center and has to be acknowledged by the budget and reporting office.

7.15 Virements approved and processed will be reported for information to the Executive Mayor on a quarterly basis.

8 POLICY ADOPTION

REFERENCE NO.	**APPROVAL DATE**
BUDGET:13/P	

NAME OF APPROVER	**RESOLUTION NUMBER**	**SIGNATURE OF THE MUNICIPAL MANAGER**
DR. JS Moroka Local Municipality Council		